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# Viable Business Models For M-Commerce

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# VIABLE BUSINESS MODELS FOR M-COMMERCE

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## **Abstract**

*Mobility has given new dimensions to the way commerce works. The entire domain of doing business via mobile devices and technologies has been classified as M-commerce. All over the world various stakeholder organisations are consistently probing into the areas where M-commerce can be exploited and can generate revenue or value for them. Simultaneously these initiatives are making the business environment more complex and uncertain. The importance of efficient business models for mobile commerce is increasing with the growth in innovations. This research aims at developing viable business models which can help in improving the processes and results linked to M-commerce activities. First this research will probe into essential components of business models and then evaluate how each of these components aligns with M-commerce by looking at various cases.*

**Keywords:** Business Models, Mobile Commerce, Value Chain, Value Network

# VIABLE BUSINESS MODELS FOR M-COMMERCE

## Abstract

*Mobility has given new dimensions to the way commerce works. The entire domain of doing business via mobile devices and technologies has been classified as M-commerce. All over the world various stakeholder organisations are consistently probing into the areas where M-commerce can be exploited and can generate revenue or value for them. Simultaneously these initiatives are making the business environment more complex and uncertain. The importance of efficient business models for mobile commerce is increasing with the growth in innovations. This research aims at developing viable business models which can help in improving the processes and results linked to M-commerce activities. First this research will probe into essential components of business models and then evaluate how each of these components aligns with M-commerce by looking at various cases.*

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## 1.0 Introduction

“A good business model begins with an insight into human motivations and ends in a rich stream of profits” (Magretta, 2002).

The term “business model” at first glance brings an impression of highly sophisticated arcane set ups, mathematical calculations, projection sheets and much more; however fundamentally a good business model can be described by answering few simple questions like: Who is the customer? What does he value? And how can money be made out of a business? With the underlying economic logic that explains how we can deliver value to customers at an appropriate cost. A successful business model characterizes better ways to provide value to a specific demographic group of customers as compared to existing alternatives or it may replace the conventional ways and set new standards for the next generations (Magretta, 2002).

The global business environment is very dynamic and forces organisations to consistently improve their business models in order to match the competition. These changes are triggered by many factors such as changes in customer needs and market requirements, labour and resources globalisation, regulatory emphasis, strong rivalry and technology innovations (Kamoun, 2008). A good working business model remains crucial to every organisation, whether it's a new venture or an established player (Magretta, 2002). Interestingly, the latest innovations and emerging technologies have always been major drivers for continuous rethinking of business models (Kamoun, 2008). These innovations activate new cost reduction prospects and value creation opportunities. One such innovation, which has shown huge potential, is Mobile Commerce.

During the mobile commerce hype phase (1999-2002) there were many great visions of how m-commerce could revolutionise the way businesses work. M-commerce revenues were expected to reach \$600 million in the US, over \$1.5 billion in Europe, and \$3.5 billion in Japan by 2003 and \$22 billion by 2005 (Feng, Hoegler, & Stucky, 2006). However, that optimistic scenario did not materialise and m-commerce has not gained significant market acceptance yet.

To achieve m-commerce success, people tend to look for innovative 'killer applications' or modifications of existing e-commerce applications in a mobile environment (Xu & Gutiérrez, 2006). It is not, though, the application but the business model behind the application that really determines its success (Yuan & Zhang, 2003). Early efforts to explore the critical success factors have focused on the mobile communication infrastructure, mobile devices' limitations, and the development of mobile applications, rather than on applications in business settings (Feng et al., 2006).

The majority of researchers focus on the actors, their relationships, and value objects exchanged. Rare attention has been paid to conceptualizing the relationships between variables of the different business model domains or on cross-company collaboration in complex value networks (Bouwman, Haaker, & Faber, 2005). To compete in a highly competitive marketplace, businesses must devise effective m-commerce models and strategies (Senn, 2000).

A viable business model, where all the players, including consumers, operators, content providers, device and equipment manufacturers, portal providers, content producers, distributors or other cooperating in the value chain run a profitable business and extract sufficient incentives to sustain the value network, is one of the dominant factors for the success of m-commerce (Feng et al., 2006). To be successful, enabling technologies require as much business model innovation and adaptation as innovation in devices, products, services, or operations (Kamoun, 2008). M-commerce is not an exception.

This research study will be of interest to:

- The m-commerce value chain partners consisting of communication providers such as Vodafone, Telecom and Sprint; application hosting companies like IBM and Microsoft; content aggregation companies like eBay and Yahoo; application development companies like Microsoft and Orbiz and finally content producers like Sky, Disney and TVNZ.
- Other organisations already having fully operational e-commerce systems, and aspiring to take advantage of mobile technologies penetration and build their m-commerce solutions: for example Whitcoulls or Trademe.
- E- Government to m-Government. Government organisations interested in capitalizing on the potential of mobile technologies to improve government services and enhance community outreach.

## **2.0 Background**

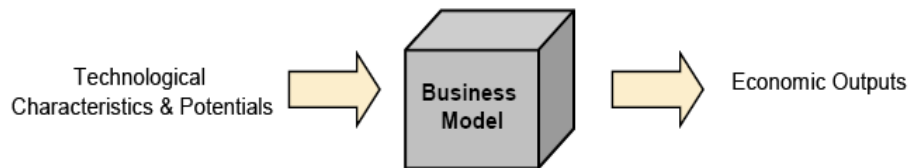
The recent steep growth in mobile innovations has created complex global business systems. Moulding these innovations and services into a sustainable business model is an intricate task. It is assumed that unlike traditional and static value chains, multiple organisations will be co-operating at a high degree and will tend to create a value network, where each player controls different capabilities and resources (Bouwman et al., 2005). However companies face difficulties in framing that type of cooperation and achieving the anticipated benefits. Business models around M-commerce are much more than mere strategic alliances in the telecommunications domain. There needs to be a more efficient business model which can create some guidelines around synergy of services and responsibilities among various stakeholders (Bouwman et al., 2005) thus generating business propositions out of the value network for each participant, and sustaining the relationships.

Most often m-commerce is taken as an extension of e-commerce and signifies the use of wireless mobile devices, and the mobile Internet, to facilitate various transactions. These transactions include information search and several tasks in consumer, business-to-business, and intra-enterprise communications. Other researchers also share a similar viewpoint and regard m-commerce as an evolution of the e-commerce paradigm from fixed networks to wireless data networks.

Realistically, m-commerce is not always, classical e-commerce. Even if each of the two shares aspects of the other, each possesses some unique characteristics that defines their independent state and functionality (Thomas & Mark, 2003). Supporting Thomas and Mark several researchers insist that mixing both concepts is misleading because the business models and the value chain for m-commerce are totally different from those used with e-commerce and there is support for the idea that m-commerce is not derived from e-commerce whereas it's a whole innovative way of conducting time-critical transactions on real time basis regardless of the location (Feng et al., 2006). M-commerce should not be considered as a new channel for e-commerce or a substitute for purchasing goods and services using desktop computers. The

applications which have shown substantial benefits on an e-commerce architecture may not necessarily match up with the same standards in m-commerce due to major fundamental technology differences between both (Yuan & Zhang, 2003). Although wireless technologies presents an attractive medium for conducting e-commerce for two very strong reasons: ubiquity and localization, these factors should be strongly emphasized in m-commerce applications (Clayton, Leonard, & Joseph, 2004). There is certainly a need to think beyond existing internet based e-commerce business models and search for models more appropriate to m-commerce.

As such, a business model is a blueprint of the way a business creates and captures value from its services, products, or innovations (Kamoun, 2008). The concept also defines how a firm interacts and transacts with customers, partners, and suppliers. As shown in Figure1 using the simplest terminology, a business model converts technological characteristics and potentials to economic outputs, thus directing technology investments towards profitable and sustainable economic value creation (Chesbrough & Rosenbloom, 2002).



**Figure 1: The Role of the Business Model**

Creating a business model is a lot like writing a new story (Magretta, 2002). Let's pursue this idea: the challenging aspect of constructing business models is that, it requires connecting and balancing design choices in different domains in a manner that it makes sense, like a good story does, and the business model should also create sufficient value for the customer and the network of collaborating actors. The central concept in the entire business model paradigm is the value which can be seen as perceived benefits and costs of a product or service for customers in target markets (Bouwman et al., 2005).

### **3.0 Purpose of the study**

The purpose of this study is to determine viable business models for m-commerce and identify how value is created for various service partners or demographic customer groups. It first looks at various components of a business model in general and then investigates the success factors which may sustain its existence.

Research Questions/Objectives:

- a) How does M-Commerce impact traditional business models?

The first research question explores how m-commerce can be used to improve existing business models or create new ones.

- b) What are the success factors that support a viable and sustainable business model for M-Commerce?

After the answers to the first question gives us a basic understanding about the m-commerce business environment and the key differences as compared to e-commerce, the next research question looks into the fundamental components of a sustainable business model with relevance to m-commerce.

- c) How this model can create value chains for customers and contribute value to various involved service partners as well as various customers?

Once we have a clear set of dimensions around business models and factors that make it viable with regards to m-commerce, we will endeavour to fit various m-commerce value chain participants into the suggested business model. We will also probe into the arrangements in which these participants share value and earn sufficient incentives to further make relationships more sustainable, ultimately achieving a stable and successful business model. The target cases are companies in New Zealand which have an existing m-commerce business model or are in the process of introducing new m-commerce initiatives and other organizations having interest in m-commerce and associated business models, such as, academic institutions and technology consulting firms.



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